

Message Text

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ACTION EB-07

INFO OCT-01 ARA-06 IO-10 ISO-00 AGR-05 CEA-01 CIAE-00

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC PRIORITY 2300

INFO AMEMBASSY GENEVA

C O N F I D E N T I A L SECTION 1 OF 2 BUENOS AIRES 5523

E.O. 11652: GDS

TAGS: EFIN, AR, ETRD

SUBJ: ARGENTINA'S BALANCE OF PAYMENTS; EXTERNAL DEBT

GENEVA PASS MTN GENEVA

DEPT PASS TREASURY, COMMERCE

REF: A) STATE 178876; B) STATE 165816; C) BUENOS AIRES A-34;

D) BUENOS AIRES 5477; D) BUENOS AIRES 4783

SUMMARY: ARGENTINA FACES SERIOUS EXTERNAL CRISIS. 1975
BALANCE OF PAYMENTS DEFICIT ESTIMATED AT ONE BILLION DOLLARS.
GROSS FOREIGN EXCHANGE RESERVES LIKELY FALL FROM \$1,411
MILLION AT END 1974 TO ABOUT \$411 MILLION AT END 1975. POOR
MANAGEMENT OF EXCHANGE RATE AND INAPPROPRIATE DOMESTIC ECONOMIC
POLICIES MAJOR FACTORS ACCOUNTING FOR SHARP DETERIORA-
TION EXTERNAL ACCOUNTS. WE GUESSTIMATE TOTAL GOA DEBT NOW
ABOUT \$10,000 MILLION, INCLUDING CAPITAL AND INTEREST.
ACCORDING FORMER CENTRAL BANK PRESIDENT RICARDO CAIROLI,
1975 EXTERNAL DEBT OBLIGATIONS TOTALLED \$3,356 MILLION AT
MAY 31, 1975 - ABOUT A THIRD OF TOTAL EXTERNAL DEBT.
CURRENT LIQUID FOREIGN EXCHANGE RESERVES PLUS FORESEEABLE
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FOREIGN EXCHANGE INFLOWS DURING REMAINDER YEAR WILL NOT BE

SUFFICIENT FINANCE DEBT AND OTHER EXTERNAL PAYMENTS IN OUR VIEW. THUS, FURTHER ROLLING OVER AND RESCHEDULING OF SOME DEBT WILL BE NECESSARY. AT PRESENT TIME, ARGENTINA STILL CURRENT ON OBLIGATORY EXTERNAL PAYMENTS, - BUT BANKS EXTREMELY CONCERNED AND WATCHING SITUATION CLOSELY. MOST FOREIGN BANKS REPORT THEY NOT WILLING CONSIDER MAJOR NEW CREDITS FOR NOW UNTIL ECONOMIC/POLITICAL SITUATION STABILIZES. IN PRESENT CIRCUMSTANCES, POSSIBLE OPITONS FOR ARGENTINA APPEAR INCLUDE 1) NEGOTIATION COMPREHENSIVE IMF STANDBY, 2) NEGOTITAION IMF CREDITS (FIRST TRANCHE AND OIL FACILITY), 3) CONSINTUATION PRESENT AD HOC EFFORTS ROLL OVER DEBT AND SEEK NEW CREDITS. NEW ECONOMY MINISTER ANTONIO CAFIERO WHO EXPECTED TO TAKE OFFICE SHORTLY, HAS GOOD REPUTATION LOCALLY BUT WE DON'T KNOW YET WHAT LINE HE LIKELY FOLLOW ON EXTERNAL POLICY. END SUMMARY.

1. INTRODUCTION.

FOLLOWING RECEIPT REFS A AND B, EMBASSY REQUESTED OFFICIAL BALANCE OF PAYMENTS AND EXTERNAL DEBT DATA FROM CENTRAL BANK AND RECEIVED AFFIRMATIVE RESPONSE. HOWEVER, MOST RECENT CABINET CRISIS INCLUDING RESIGNATION ECONOMY MINISTER PEDRO J. BONNANI HAS CAUSED CENTRAL BANK DELAY GIVING US INFORMATION. RATHER THAN WAITING LONGER, WE TRANSMIT FOLLOWING CABLE WHICH WE THINK OUTLINES GENERAL PARAMETERS OF EXTERNAL PROBLEM WITH FAIR DEGREE RELIABILITY. IF CENTRAL BANK PROVIDES US WITH OFFICIAL DATA WE WILL, OF COURSE, IMMEDIATELY FORWARD TO WASHINGTON. IN ANY EVENT, BELIEVE GOA DELEGATION TO BANK/FUND MEETING IN SEPTEMBER WILL HAVE EXTENSIVE DATA.

2. BALANCE OF PAYMENTS.

WE NOW ESTIMATE TRADE DEFICIT FOR YEAR OF \$300 MILLION - INCLUDING EXPORTS \$3,000 MILLION AND IMPORTS \$3,300 MILLION. EXPORT FIGURE INCLUDES AGRICULTURAL PRODUCTS ROUGHLY \$2,300 MILLION AND INDUSTRIAL ITEMS \$600-700 MILLION. IN IMPORT CATEGORY, CRUDE PETROLEUM IMPORTS WILL TOTAL ABOUT \$200 MILLION AND TOTAL ENERGY IMPORTS ABOUT \$400 MILLION ACCORDING TO ESTIMATE PROVIDED US BY EXXON. PRIMARY EXPLANATION FOR DECLINE BELOW PREVIOUS ESTIMATE (CONTAINED REF C) IS DROP IN FUEL CONSUMPTION RESULTING SHARP FUEL

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PRICE INCREASES. ESTIMATE FOR SERVICE ACCOUNT IS MINUS \$250 MILLION LEAVING TOTAL CURRENT ACCOUNT DEFICIT OF MINUS \$550 MILLION. CAPITAL ACCOUNT ESTIMATED AT MINUS \$450 MILLION BRINGING TOTAL BALANCE OF PAYMENTS DEFICIT TO ONE BILLION DOLLARS. ABOVE RESULTS WOULD LEAD TO DECLINE ARGENTINA'S GROSS EXTERNAL RESERVE HOLDINGS FROM \$1,411 MILLION AT END 1974 (TOLD \$168.7 MILLION NET BILATERAL ACCOUNTS \$28.9 MILLION FREE RESERVES AND INVESTMENTS \$1,027.7 MILLION,

SDR \$101.8 MILLION, OTHER \$83.9 MILLION) TO ABOUT \$411 MILLION AT END 1975 (POSSIBLY COMPOSED AS FOLLOWS: GOLD \$168.7 MILLION, NET BILATERAL ACCOUNTS \$50 MILLION, FREE RESERVES AND INVESTMENTS \$150 MILLION, AND OTHER \$42.3 MILLION). BY WAY COMPARISON, ARGENTINA'S GROSS EXTERNAL RESERVE HOLDINGS FELL TO \$374.2 MILLION END 1971 AND \$541.3 MILLION END 1972 DURING EXTERNAL CRISIS AT THAT TIME. IT IS IMPORTANT NOTE ABOVE BALANCE PAYMENTS RESULTS ONLY OBTAINED WITH HELP MASSIVE BALANCE OF PAYMENTS CONTROLS AND ARTIFICIAL SUPPORTS SUCH AS EXPORT SUBSIDIES, IMPORT RESTRICTIONS, VIRTUAL FREEZE ON PROFIT AND ROYALTY REMITTANCES, TIGHT CAPITAL CONTROLS, SPECIAL ACCORD WITH AUTOMOBILE SECTOR, ENCOURAGEMENT OF SHORT TERM CAPITAL INFLOWS VIA "SWAPS", ROLLING OVER AND RESCHEDULING OF DEBT, ETC.

DETERIORATION EXTERNAL ACCOUNTS DURING FIRST HALF YEAR PRIMARILY RESULT POOR MANAGEMENT OF EXCHANGE RATE, AS WELL AS INAPPROPRIATE DOMESTIC ECONOMIC POLICIES. WHEN ARGENTINA FINALLY DEVALUED IN MARCH 1975, EXCHANGE RATE HAD BEEN FIXED FOR 31 MONTHS DESPITE INCREASE IN DOMESTIC WHOLESALE PRICE INDEX OF 147 PERCENT DURING SAME PERIOD. DURING LATE 1974 AND EARLY 1975, OVERVALUED RATE AND INCREASING CERTAINTY FORTHCOMING DEVALUATION ENCOURAGED SUBSTANTIAL IMPORT SURGE AND SPECULATION AGAINST PESO WHICH TOOK MANY FORMS. ACCORDING OFFICIAL SOURCES, IMPORTS DURING FIRST FOUR MONTHS 1975 SOARED TO \$1,400 MILLION, 50 PERCENT ABOVE \$932 MILLION FIGURE FOR FIRST FOUR MONTHS OF 1974. TRADE DEFICIT FOR SAME PERIOD IN 1975 WAS \$476 MILLION, COMPARED WITH \$355 MILLION SURPLUS LAST YEAR. OVERVALUED RATE ALSO ENCOURAGED EXPANSION ARGENTINE TOURISM DEVOURING SCARCE FOREIGN EXCHANGE, E.G. \$30 MILLION DURING MONTH OF JANUARY ALONE. INAPPROPRIATE DOMESTIC POLICIES WHICH CONTRIBUTED TO WEAKENING EXTERNAL ACCOUNTS INCLUDE ENORMOUS FISCAL

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DEFICIT, LARGE AND FREQUENT WAGE INCREASES, AND INADEQUATE STIMULUS TO PRODUCTION AND INVESTMENT. WHILE THESE FACTORS WITHIN GOA CAPACITY TO CONTROL, SOME OTHERS ADMITTEDLY WERE NOT, SUCH AS EC BAN ON ARGENTINE MEAT EXPORTS, RAINS AND FLOODS EARLIER IN YEAR WHICH ADVERSELY AFFECTED GRAINS AND OIL-SEED PRODUCTION, AND DECLINE INTERNATIONAL GRAIN PRICES BEGINNING EARLIER IN YEAR.

3. EXTERNAL DEBT.

IN RECENT YEARS, ARGENTINA'S TOTAL EXTERNAL DEBT HAS CLIMBED QUITE STEADILY AND WE GUESSTIMATE IT NOW TOTALS ABOUT \$10,000 MILLION - INCLUDING CAPITAL AND INTEREST. IN 1974, TOTAL EXTERNAL DEBT INCREASED BY MORE THAN ONE BILLION DOLLARS - MAINLY TO FINANCE PUBLIC SECTOR INVESTMENT PROJECTS. IN 1975, WE BELIEVE DEBT HAS CONTINUED TO

INCREASE MAINLY BECAUSE NEW TRADE LIABILITIES INCURRED WHILE LARGE PORTION MATURING LIABILITIES ROLLED OVER RATHER THAN REPAYED. ROUGHLY 60 PERCENT OF TOTAL DEBT IN PUBLIC SECTOR, WHILE 40 PERCENT IS PRIVATE. AVERAGE MATURITY OF DEBT DECLINING STEADILY OVER LAST DECADE AND SLIGHTLY BELOW THREE YEARS AT END 1973.

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ACTION EB-07

INFO OCT-01 ARA-06 IO-10 ISO-00 AGR-05 CEA-01 CIAE-00

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FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC PRIORITY 2301

INFO AMEMBASSY GENEVA

C O N F I D E N T I A L SECTION 2 OF 2 BUENOS AIRES 5523/2

ACCORDING FORMER CENTRAL BANK PRESIDENT RICARDO CAIROLI, EXTERNAL DEBT OUTSTANDING 1975 AT END MAY 1975 TOTALLED \$3,359 MILLION. THIS FIGURE CONSTITUTES ROUGHLY ONE-THIRD TOTAL ARGENTINE EXTERNAL DEBT. PUBLIC SECTOR DEBT OF \$1,559 MILLION BROKEN DOWN AS FOLLOWS BY CAIROLI: JUNE \$316 MILLION, JULY \$208 MILLION, AUGUST \$140 MILLION: SEPTEMBER \$182 MILLION, OCTOBER \$147 MILLION, NOVEMBER \$95 MILLION, DECEMBER \$471 MILLION. PUBLIC SECTOR DEBT TOTALLED \$1,800, BUT CAIROLI PROVIDED NO MONTHLY BREAKOUT.

4. FINANCING DEBT.

CURRENT FOREIGN EXCHANGE HOLDINGS, PLUS FORESEEABLE FOREIGN EXCHANGE INFLOWS DURING REST OF YEAR, WILL NOT BE SUFFICIENT COVER 1975 DEBT PLUS OTHER PAYMENTS IN OUR VIEW. SITUATION

MORE OR LESS AS FOLLOWS. END JUNE 1975, CENTRAL BANK POSSESSED GROSS EXTERNAL ASSETS TALLING \$658 MILLION AS FOLLOWS: GOLD \$168.7 MILLION, SDRS \$2.6 MILLION, INVESTMENTS AND FREE RESERVES \$408.9 MILLION AND NET BILATERAL ACCOUNTS \$77.5 MILLION. CURRENT AND RELATIVELY LIQUID PORTION OF TOTAL IS ONLY \$408.9 MILLION - OF WHICH NOT MORE THAN \$50 MILLION ARE REALLY CONFIDENTIAL

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FREE DEPOSITS.EXPORT RECEIPTS MIGHT TOTAL ABOUT ONE BILLION DURING REST OF YEAR AND SHORT TERM CAPITAL INFLOWS VIA SQAPS ANOTHER \$300 MILLION. (CENTRAL BANK THIS YEAR ALREADY HAS RECEIVED OVER \$700 MILLION DOLLARS IN SWAPS SHIFTING ITS FORWARD SWAP POSITION FROM MINUS \$264 MILLION AT END NOVEMBER 1974 TO ABOUT MINUS \$1,000 MILLION CURRENTLY. U.S. BANKS AND COMPANIES REPORT THEY INCREASINGLY RELUCTANT NEGOTIATE NEW SWAPS IN CURRENT UNSTABLE SITUATION.) IN ANY EVENT, FORESEEABLE FOREIGN EXCHANGE INFLOWS DURING REMAINDER OF YEAR OF AROUND \$1,500 MILLION NOT SUFFICIENT COVER DEBTS AND OTHER NECESSARY FOREIGN EXCHANGE PAYMENTS. LIQUID EXTERNAL ASSETS ALREADY DOWN TO LOW LEVEL. THUS, SOME DEBTS WILL HAVE TO BE POSTPONED OR RESCHEDULED, UNLESS CURRENT CENTRAL BANK NEGOTIATIONS FOR NEW EXTERNAL CREDITS BEAR QUICK FRUIT (SEE REF D) (SOMETHING WE DO NOT ANTICIPATE) AND/OR GOA DECIDES TO SELL OR SWAP ITS GOLD. (CENTRAL BANK POSSESSES 3,996 THOUSAND OUNCES GOLD WORTH \$640 MILLION AT CURRENT INTERNAL PRICE.)

5. REACTION OF BANKING COMMUNITY.

AS OF TODAY, ARGENTINA IS CURRENT ON ITS EXTERNAL OBLIGATIONS WITH A FEW EXCEPTIONS. HOWEVER, BANKING COMMUNITY IS EXTREMELY CONCERNED REGARDING SITUATION AND WONDERING HOW MUCH LONGER GOA CAN CONTINUE PAY DEBTS. FOR MOST PART, BANKING COMMUNITY HAS TREATED ARGENTINA FAVORABLY KEEPING TRADE LINES OPEN AND MAINTAINING THEM AT PREVIOUS LEVELS. NOTABLE EXCEPTION IN THIS REGARD IS FIRST NATIONAL CITY BANK, WHICH WE UNDERSTAND HAS CUT BACK LINES SHARPLY, AND A FEW OTHER BANKS. WHILE BANKS HAVE MAINTAINED LINES, CORRESPONDENTS ABROAD ARE NOT ALLOWING LOCAL BANKS TO EXCEED THEM - A FREQUENT OCCURRENCE IN MORE NORMAL TIMES. MOST FOREIGN FINANCIAL ENTITIES APPEAR TO HAVE FIXED A LIMIT ON ARGENTINE EXPOSURE WHICH THEY NOT WILLING EXCEED. IN CASE U.S. BANK BRANCHES, THEY ONLY WILLING EXCEED TOTAL EXPOSURE LIMIT WHEN OPERATION GUARANTEED ABROAD BY PARENT COMPANY OR SOME OTHER ENTITY. MOST BANKS NOW SEEM QUITE RELUCTANT UNDERTAKE NEW SWAP TRANSACTIONS FOR CLIENTS AND ARE DEMANDING FOREIGN GUARANTEES IN MOST CASES.

6. OUTLOOK.

GOA APPEARS TO HAVE THREE OPTIONS FOR DEALING WITH CURRENT CONFIDENTIAL

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ECONOMIC CRISIS INCLUDING 1) FULL IMF STAND BY:2) IMF DRAWINGS (FIRST CREDIT TRANCHE PLUS OIL FACILITY) AND FUND BLESSING FOR GOA EFFORTS RAISE CAPITAL ELSEWHERE, AND 3) CONTINUATION PRESENT AD HOC APPROACH RAISING CREDITS AND POSTPONING DEBT AS FEASIBLE. NEW ECONOMY IMINISTER ANTONIO CAFIERO EXPECTED TAKE OFFICE SHORTLY AND WE CANNOT PREDICT WHAT POLICY LINE HE WILL FOLLOW REGARDING EXTERNAL PROBLEMS. HOWEVER, HE HAS GOOD REPUTATION LOCALLY AS COMPETENT AND REASONABLE MAN AND WE INCLINED BELIEVE HE WILL SEEK SOLUTION ALONG LINES OPTION 2. EXTERNAL CRISIS SERIOUS,BUT OVERRIDING PROBLEM IN OUR VIEW IS ABSENCE POLITICAL STABILITY AND GOA INABILITY IMPLEMENT AND SUSTAIN REALISTIC ECONOMIC PROGRAM. BELIEVE GOA WILL SENS STRONG DELEGATION TO BANK/FUND MEETING SEPTEMBER IN EFFORT WORK OUT SOLUTION CURRENT EXTERNAL PROBLEMS. WE HOPE THIS CABLE PROVIDES USEFUL INFORMATION ASSIST WASHINGTON PREPARATION FOR FINANCIAL QUESTIONS WHICH GOA DELEGATION LIKELY RAISE WITH SECRETARY SIMON AND OTHERS.
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